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Outline for a Study of the
Advantages and Disadvantages to be Derived by the
United States from Peaceful Trade with the Soviet Bloc

Purpose of the Study

The purpose of this study is to weigh the political, military, psychological, and economic factors which have a relationship to the advantages and disadvantages to be derived by the U.S. from trade with the Soviet Bloc. Although various aspects of the U.S. export control policy have been reviewed from time to time, the basic factors listed above have been studied principally with respect to the denial of strategic goods and only indirectly with respect to overall trade relationships. Recently there have been many important political, military, and economic developments and, therefore, the basic elements affecting U.S. trade should be re-examined and their inter-relationships re-evaluated. The fact that the USSR now employs foreign economic activities more aggressively in pursuing its objectives is a particularly noteworthy development in this connection.

Assumptions Underlying Current U.S. Policy

Current U.S. economic defense (east-west trade) policy is based on the assumption that, except for trade with Communist China and strategic trade which will retard the growth of the war potential of the Bloc and reduce its unity, the U.S. should encourage east-west economic intercourse because of the mutual economic benefits and the opportunities it affords for peaceful contact and influences among the peoples of the Soviet Bloc nations. It is assumed that the benefits from peaceful trade outweigh the marginal contribution which it makes to the economic, technological and industrial growth of the Sino-Soviet Bloc. It is assumed that Soviet intentions toward the U.S. will remain basically antagonistic,

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and that therefore the U.S. (and other free nations) should not become unduly reliant on Soviet Bloc trade. A clear line has never been drawn between strategic trade and peaceful trade.

Additional assumptions underlying U.S. policy are that the free world nations generally favor wider latitude in the conduct of east-west trade; that there is wide political support for east-west trade in peaceful goods, and that the effectiveness of control of trade is directly related to the extent that it is supported multilaterally. However, a limited number of items can be controlled effectively by the U.S. alone.

Definition of Term

Soviet Bloc -- includes the following countries: USSR, Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, and East Germany.

Outline

I. Terms of Reference

Problem: A. The study should evaluate the basic political, economic, and military factors underlying Government policies on U.S. trade with the Soviet Bloc.

B. The study should include an evaluation of the economic, military, political, and psychological effects on the Soviet Bloc and the Free World of postulated levels of trade.

C. The study should report findings and conclusions presented in such a form as to facilitate the Government's review of current policies.

Scope

The study should cover all factors underlying the formulation of U.S. policy. It should evaluate these factors intensively so as to provide the Government with

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factual conclusions for policy determination. The study should not attempt to resolve policy issues nor to recommend courses of action. It should be factual, and avoid insofar as possible unsupported statements of opinions and views.

Assumptions

A. It should be assumed that at least in the short run the USSR will remain antagonistic to the U.S.

B. It should be assumed that the U.S. will continue to oppose Soviet subversion or other efforts to expand their political influences but at the same time, leave open any possibility of any settlement of east-west differences.

C. It should be assumed that the U.S. allies will continue to place a different evaluation on the security factor in east-west trade relations with the European Soviet Bloc than does the U.S. and that the efforts by the U.S. to strengthen the use of trade controls as a means of countering Soviet expansion will be supported by major U.S. allies only if it can be clearly demonstrated to them that such efforts are essential to Free World security.

D. The evaluation should be made on the basis of four alternative postulations:

- (1) current restrictions by the U.S. on trade with the Soviet Bloc would continue;
- (2) some restrictions by the U.S. would be removed by a) removing the "presumption for denial" from all non-Positive List items, or b) removing private credit restrictions and restoring MFN tariff treatment;
- (3) some restrictions by the U.S. would be removed down to the level of the multilateral controls;

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- (4) some restrictions would be added by placing under a "presumption for denial" all items not on the Positive List which are not now on the General License List; and
- (5) the U.S. would impose a total embargo on trade with the Soviet Bloc (in addition to the embargo on trade with Communist China) and that other actions would be taken to bolster the embargo.

II. Principal Questions

A. What are the potential levels of peaceful trade between the U.S. and the Soviet Bloc under postulations 1, 2, 3, and 4 over the next few years, based upon the ability of the Soviet Bloc to

- (1) sell in the U.S. market;
- (2) pay for imports by transfer of free foreign exchange, sale of gold and other multilateral settlements (such as commodity switch deals); and
- (3) obtain credit in the U.S.?

B. What would be the principal commodities included under A above?

C. What modifications in normal commercial and credit practices would U.S. private business have to make in order to do business in Soviet markets? How much Government assistance would be required to help private business in this field?

D. What would be the economic, technological, military, political, and psychological effects of the postulated levels of trade (postulations 1 through 5) upon the

- (1) Soviet Bloc, as a whole, and by countries where significant;
- (2) United States;

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- (3) Far Eastern Communist countries;
- (4) Free World,
 - a. Allied countries
 - b. Neutral or third countries
 - c. Underdeveloped countries (included in a. and b. above) as a group?
- E. Estimate the effects of the postulated levels of trade on
 - (1) the Bloc's capability to continue or expand its economic and political penetration of underdeveloped countries; and
 - (2) the USSR's economic and political influence over other Communist Bloc nations.

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